

## CFOAM Limited – December Quarterly Activities Report

Triadelphia, WV, USA, CFOAM Limited, (ASX: CFO, the Company), through its 100%-owned subsidiary CFOAM LLC (CFL), the developer of carbon foam, CFOAM®, used for ultra-high-end performance engineering materials in the industrial, aerospace, military and commercial product markets, is pleased to report its December Quarterly Activities Report and Appendix 4C.

**Commenting on the December quarter, Executive Director of CFOAM Limited, Alain F. Bouruet-Aubertot said:** “The December quarter was confirmation the business has successfully executed its turnaround that commenced during the September quarter. CFOAM® and PFOAM™ product shipments to customers grew significantly, whilst the Company’s reassessment of the value of its product inventory and implementation of a number of repair and maintenance projects strengthen our manufacturing platform going forward.”

“The growth in sales reinforces that the Company has fully resolved any product quality issues that had impacted the business during the previous quarter. This improvement is highlighted by the increase in Touchstone Advanced Composites’ (TAC) purchases of CFOAM® products to previous levels, while quarterly sales to other customers achieved the highest levels in the Company’s history. We anticipate the ramp-up in shipments will continue over the coming quarters through an increase of sales to new and existing customers.”

“Concurrently, the implementation of our Phase 1 platform expansion program - which is now fully funded through non-dilutive State and bank provided financing - is proceeding as planned and is expected to be ready for start-up in August. We continue to actively work on the operational and financing planning of our Phase 2 expansion program, with a formal decision to be made during Q3 2018.”

### Highlights:

- Cash receipts from CFOAM® and PFOAM™ product sales were US\$162,891, a slight decrease over the September quarter due to the timing of receivables. A significant proportion of payments from customers was received in early 2018. On an accrual basis, sales achieved in Q4 2017 were 79% higher than those realised in Q3 2017.
- For the three-month period ending 31 December 2017, 1,497 production units of CFOAM® and PFOAM™ products were manufactured, similar to the prior quarter’s level. During the quarter there was a focus upon strengthening the production platform for the future, to ensure greater reliability and higher productivity of CFO’s

manufacturing operations. Due to the downtime that was incurred in order to implement the key repair and maintenance projects, manufacturing activity is expected to increase in the March quarter.

- Actual shipments to customers were 1,119 units, **more than double the sales volume of the previous quarter** (546 units).
- **TAC** accounted for 75% of total shipments for the quarter, a 66% volume increase from the previous quarter, demonstrating product quality issues are in the past.
- Significantly, shipments to customers other than TAC represented 25% of total sales for the quarter – including material sales to CFO's second largest customer in the aerospace industry. Overall, this corresponds to both the highest quarterly volume, and highest ratio of sales other than to TAC, in the Company's history.
- Operating costs increased during the quarter due to a number of non-recurring expenses, including the mandatory payment of a US\$1 million note payment to Touchstone Research Laboratory (TRL) - as per the terms of the 2016 Asset Purchase Agreement (i.e. debt reduction).
- Other non-recurring expenses included a US\$252,000 total capital cost incurred from accelerating the implementation of the Company's growth strategy. This included the beginning of the construction of a coal pulveriser in Blairsville, PA, and the start of the construction of the new kiln that is part of the Company's Phase 1 expansion program. The cash spent on Phase 1 will be **fully offset** by loans to be disbursed by West Virginia Jobs Investment Trust (WVJIT) and Summit Community Bank (Summit) after the closing of these loans in January 2018. There were also additional costs of US\$345,000 relating to the October equity raise, legal fees incurred in the loan negotiations, and executive search fees.
- **Product inventory** - as a direct result of increased shipments and a production level that remained basically flat, current inventory decreased, from 5,575 units to a total of 2,367 production units. This stems from a 378-unit inventory build-up in the quarter that was more than offset by an inventory write-off of 3,586 units made prior to July 2017 as it was concluded that it was unlikely that sales could be generated from them.
- As part of its inventory management, the Company successfully executed on its strategy of depleting lower-specification inventory (manufactured at the time the Company was incurring ongoing product quality issues) via sales into various market applications where this product specification is relevant over time. This was seen through more than 10% of total billet shipments for the quarter that did not meet the higher quality composite tooling application requirements.
- **Sales pipeline development and other key accomplishments** that took place during the past quarter include the following events:

- Successful completion of a AU\$4.5 million equity raise in October, enabling the early commencement of the implementation of the Phase 1 expansion program.
- The approval by West Virginia Economic Development Agency (WVEDA) and WVJIT, two West Virginia state organisations, for the partial funding of the Company's Phase 1 expansion program through non-dilutive financing.
- The change of the US company name to CFOAM LLC, which is aligned with its parent, CFOAM Ltd. The Company also completed the first-stage implementation of its website upgrade.
- The establishment of a sales pipeline as a measurement of the progress made in the implementation of the sales growth strategy. As part of this activity, important meetings and discussions were held in December with "strategic customers" that have the potential of qualifying and buying products in large-scale applications. The meetings led to establishing joint action plans for the continuing ramp up of sales through future capacity expansion phases. In addition, a particular focus has been placed in significantly increasing the number of companies that are now evaluating CFOAM® and PFOAM™ products in their market applications (i.e. validation and testing phase).

### Outlook

- **Improved financial performance** – the Company expects cash flow generation will strongly increase in the next quarters, as a result of growing sales and revenue, more favourable/less "lumpy" timing in receivables, and the coverage of the Phase 1 capital outlays by loans disbursed by WVJIT and Summit.
- **Continued progress of commercial development activities** – overall, CFO expects to have a significant ramp-up of CFOAM® and PFOAM™ product sales starting in early-2018, including sales to **both TAC and other existing/new customers**. The Company anticipates Q1 2018 shipments to rapidly reach, and exceed, previous record levels achieved during the first half of 2017, well before current nameplate capacity increases markedly post the start-up of the Phase 1 capital program in August.
- As compared to December 2017, progress on the development of the sales pipeline continued:
  - **Category 1 – commercial customers: 12 customers (+1)** in applications that include: composite tooling/aerospace, aerospace structures, defence, lightning/heat dissipation, audio, composite tooling/boats and electronics.
  - **Category 2 – customers close to qualification: 16 customers (+5)** in applications that include: composite tooling, batteries, fire-resistant parts, space/rocket nozzles, defence, heat dissipation, transportation and electric conductivity. A number of companies are reaching the final phases of testing and

- qualification in applications such as rail transportation and fireproof construction materials.
- **Category 3 – customers performing tests evaluation: 19 customers (+2)** in applications that include: composite tooling, cookware, transportation, space, defence, construction, chemicals and water filtration.
  - CFO is yet to receive a formal purchase order for CFOAM® product in the US Navy application from TRL, noting this was expected to occur around year-end. This application entails the construction of an entire exhaust uptake system by TRL, within which CFOAM® is a critical component. The current expectation is to have the system installed on a designated US Navy ship in early-2019. However, at this time, the uncertainty only lies with the timing of the initial purchase order, as all on-going discussions with, and feedback from, the US Navy and the general contractor that is responsible for the overall refurbishing of the ship, continue to be extremely supportive regarding the implementation of this project. The Company will provide timely updates in this regard as required.
  - **Increasing production output and strengthening manufacturing platform** – due to the increasing demand for CFOAM® and PFOAM™ products, CFO has made the decision to ramp up production **and establish a seven-day operation**. This decision entails the hiring of additional plant operators, and we expect to start running a continuous manufacturing operation in the coming weeks.
  - **Enhancing the organisation’s capability** – The Company is currently recruiting key management positions, particularly in its sales and business development organization, in order to support its growing customer base and enhance its business development efforts aimed at future growth.
  - **Active planning phase for Phase 2 expansion program** - the Company is actively executing on its market development plan and has also entered into active discussions with equipment vendors to firm up detailed capital engineering scope and cost estimates. The Company anticipates that a decision confirming a formal commitment to the Company’s Phase 2 capital program will take place in Q3 2018.
  - **Active engagement with shareholders and investors** – while numerous calls and site visits will continue to be held with existing and potential investors, management is planning an Australian investor roadshow to take place in April, at a time to be further determined.

### Management conference call

The Company wishes to advise shareholders that Mr Bouruet-Aubertot will be hosting an investor conference on Monday, February 5<sup>th</sup> at 10:30am (AEST). Mr Bouruet-Aubertot and the CFO Board are committed to improving shareholder engagement moving forward.

## ASX ANNOUNCEMENT

31<sup>st</sup> January 2018



Therefore, all CFO shareholders are encouraged to dial in. In the interests of logistics, shareholders with relevant questions should email them ahead of time to Simon Hinsley ([simon@nwrcommunications.com.au](mailto:simon@nwrcommunications.com.au)). Call details will be released to the ASX separately.

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### **About CFOAM Limited**

CFOAM® is an inorganic carbon material that is manufactured from coal, pitch or lignin feedstock. CFOAM® manufactured in this process has a rigid foam structure, similar in appearance to pumice stone, but with entirely different properties. CFOAM® is currently used across a wide variety of markets including composite tooling for the aerospace sector, energy absorbing applications and defence applications. Additional markets such as the automotive applications for energy absorption and fire resistance are also expected become significant to the Company over time.

CFOAM® was developed to meet the growing demand for ultra-high-end performance engineering materials in the, industrial, aerospace, military and commercial product markets.

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